Given the upcoming Board meetings and financial trend concerns, the following summarizes the patient receivable trend analysis, utilizing February 28, 1997 receivable balances, if the initial $25 million is allocated as proposed above:

($ in 000s)

	6/30/96	9/30/96	12/31/96	Actual 2/28/97	Adjusted 2/28/97
Allegheny University Hospitals	$175,284	$180,817	$191,274	$198,984	$179,984
St. Christopher's	43,319	46,562	48,047	51,502	45,502

On the Graduate side, I am proposing that we allocate the $50 million as follows:

	($in 000s)
Graduate	$20,000
City Avenue	8,000
Parkview	8,000
Mt. Sinai	5,000
Rancocas	9,000
	$50,000

If you have any questions or need additional information, please contact me at your convenience.

DJC/jaf
s/jodie/wp/dan/memos-ss/restruct mem

cc: Joe Dionisio
Chuck Morrison
Greg Snow
Al Adamczak

EXHIBIT 0019

INVESTMENTS

Allegheny Health, Education & Research Foundation
Analysis of Endowments
June 30, 1996

Endowments - Permanently Restricted (account #2003000)

Cost Center	Trust #	Description	Market Value	Unrealized Gain/(Loss) 30-Jun-95	Unrealized Gain/(Loss) 30-Jun-96	Book Value	Realized Gain/(Loss) 30-Jun-95	Realized Gain/(Loss) 30-Jun-96	Contribution
66330040	500-007	J.M. Lockhart	$61,021,775.53	$6,717,440.72	$2,733,578.96	$51,570,755.85	$45,747,387.00	$5,095,768.85	$727,600.00
66330140	500-017	J.M. Lockhart	10,075,488.88	1,103,412.54	284,125.67	8,687,950.67	6,676,162.00	1,011,788.67	1,000,000.00
66330240	500-022	J.M. Lockhart	9,400,163.35	1,045,815.35	407,308.81	7,947,039.19	5,310,062.00	790,977.19	1,846,000.00
66330440	510-000	E.A. Oliver	675,932.36	32,981.19	50,660.28	592,290.89	289,898.00	42,392.89	260,000.00
66330340	505-208	Lewis A. Park	6,131,713.89	678,044.64	275,431.06	5,178,238.19	3,121,231.54	503,535.19	1,553,471.46
			$87,305,074.01	$9,577,694.44 (a)	$3,751,104.78	$73,976,274.79	$61,144,740.54 (b)	$7,444,462.79	$5,387,071.46

Special Purpose Fund - Temporarily Restricted (Account #2002100)

Unrealized Gain - 6/30/95	$9,577,694.44	(a)
Realized Gain - 6/30/95	61,144,740.54	(b)
Subtotal	70,722,434.98	
Corporate Service Accrual	(996,926.00)	
J. Lydon Entry	(3,481,141.00)	
J. Lydon Entry - Adj endow prior pd	(13,456,661.00)	
Balance per G/L	$52,787,706.98	

4,478,067
4,478,067
<8229,171>
3,751,105
4,478,067

PR-PRIV-TN-00628

TN-P-00628

EX. 19
WIT C. Lyson
DATE 5/23/02
CLAIRE GROSS, RPTR

< > - Credit

Lockhart Funds

Date	JE #	Participating Trust 2.002.190	Permanent Endowment 2.003.000	Temporary Endowment 2.003.100	Bd. Desig. Endowment 2.003.410	Corporate Service 4.101.030	Fund Balance: Retained Earnings 6.011.100	Fund Balance: Spec. Pur. Cum. Effect 6.021.110	Fund Balance: Spec. Pur. Gifts/Donat. 6.021.800	Fund Balance: Endowment Trusts 6.031.500	Endowment Inv. Income 7.503.100	Endowment Inv. Income 7.503.110	Endowment Real. Gain 7.503.210	S/T Inv. Unreal. Gain 7.504.200	Endowment Unreal. Gain 7.603.200	Cum. Effect 7.891.000	All others	Check
		ok	ok	ok	ok	ok	ok	ok	ok	ok	ok	ok	ok	ok	ok	ok	ok	
Previous activity		17,777,072	72,398,852	0	45,683,824	(682,291)	(84,081,807)		(17,777,072)	(72,398,053)	(3,360,477)	(1,429,364)	(3,558,145)		0		47,408,261	0
Move/merge			0	0	0					0					0			0
Move/merge			0	0	0					0					0			0
04/30/98	AH056		0	0	8,000,000					0					(2,645,000)	(5,355,000)		0
04/30/98	AH057		0	0	0					0					0			0
05/31/98	AH052		0	0	~~8,000,000~~					0					(2,645,000)	(5,355,000)		0
05/31/98	AH058		0	0	~~(8,000,000)~~					0					2,645,000	5,355,000		0
05/31/98	AH057		0	0	(200,000)					0					200,000			0
05/31/98	AH059		0	0	711,677					0					0	(711,677)		0
05/31/98	AH30F		0	0	0					0					0			0
05/31/98	AH060		9,574,693	0	0					(9,574,693)					0			0
05/31/98	AH060		2,668,815	0	0					(2,668,815)					0			0
06/30/98	AH020		1,378,735	0	1,445,451					(1,378,735)	(207,372)	(667,810)	(550,279)		0			0
06/30/98	AH20A		197,886	0	1,037,077					(197,887)	(355,826)	(262,206)	(418,044)		0			0
06/30/98	AH20B		0	0	(223,500)					0	(495,373)	718,873			0			0
06/30/98	AH20C		0	0	233,495					0	Current yr RG			3,347	(233,495)	(3,347)		0
06/30/98	AH20D		(68,589,204)	0	68,589,204	(61,144,741)				68,589,204	(7,444,483)				0			0
06/30/98	AH20E		0	0	0	(A) 11,788,171				0	(11,788,171)				0			0
06/30/98	AH20F		(13,328,600)	0	13,328,799	~~(9,677,004)~~				13,328,600	~~(3,751,105)~~				0			0
06/30/98	AH20G		1,087,492	0	0					(1,087,492)					0			0
06/30/98	AH20H		0	62,493,263	(62,493,263)	62,493,263			(62,493,263)	0					0			0
06/30/98	AH20I		0	3,751,105	(3,751,105)				(3,751,105)	0	3,751,105				0			0
06/30/98	AH20J	300,000	0	0	0			(300,000)		0					0			0
06/30/98	AH070		0	0	0	(A) (5,089,000)				0	5,089,000				0			0
06/30/98	AH078		0	0	0	1,550,000				0	(1,550,000)				0			0
06/30/98	AH082		0	0	0					0					0			0
06/30/98	AH087	19,616,395	0	0	0				(19,616,395)	0					0			0
06/30/98	AH088	713,629	0	0	0				(713,629)	0					0			0
06/30/98	AH089		0	0	0			(33,818,652)	33,818,652	0					0			0
06/30/98	AH091		0	0	0					0	3,751,105				(*) (3,751,105) Gain			0
06/30/98	AH093		0	(13,458,681)	13,458,681		(13,458,681)		13,458,681	0					0			0
Other entries			0	0	0					0					0			0
RECLASS			0	0	0					0					0			0
Rounding			2	0	(1)	1				0					1	(489)	488	0
			0	0	0					0					0			0
		38,409,096	5,387,071	52,787,707	85,816,329	(682,291)	(97,538,488)	(33,818,652)	(57,280,151)	(5,387,071)	(18,341,577)	(1,660,507)	(4,527,468)	3,347	(8,429,599)	(8,070,513)	47,408,747	0
Per F/S's		38,409,096	5,387,071	52,787,707	85,816,329	(682,291)	(97,538,488)	(33,818,652)	(57,280,151)	(5,387,071)	(18,341,577)	(1,660,507)	(4,527,468)	3,347	(8,429,599)	(8,070,513)	47,408,747	0
Difference		0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0

S:\ACCT\BAKER\CHUCK\DAN\OC\CHART.WK4

70,722,454
<8,229,171>
70,722,454
3,829,171-
<3,751,105>
4,478,066

TM Activity
* 70,722,434.44 Bal TM Balance.
4,478,066 { <8,229,171-> to 2003110 + Liab then P&L
3,751,105- Per Jack Lydon From 2003110, debit to 7503100 (To reverse a part of 8,229,171)
<13,456,661-> Adjust endow py effect to Retained earnings.
52,787,707.44 Bal per G/L

70,722,434 xsfr PM to Liab
<9,577,694>
<61,144,741>
-0-

Σ(A) = 8,229,171-

Σ(*) 11,195,568
4,478,066

17,934,728
<15,673,635>
2,261,093 ??

PR-PRIV-TN-00629

TN-P-00629

EXHIBIT 0022

✓ C:C file

Coopers & Lybrand

Coopers & Lybrand L.L.P.

a professional services firm

600 Grant Street
35th Floor
Pittsburgh, Pennsylvania
15219-2777

telephone (412) 355-8000

facsimile (412) 355-8089

September 23, 1996

To the Board of Trustees of
Allegheny Health, Education and Research Foundation:

In planning and performing our audits of the financial statements of Allegheny Health, Education and Research Foundation and its affiliates; Allegheny General Hospital, the Delaware Valley Obligated Group and Allegheny Integrated Health Group (AHERF and affiliates) for the year ended June 30, 1996, we considered AHERF's internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements. Although our audits were not designed to provide assurance on the internal control structure, we noted certain matters involving the internal control structure and its operations, and are submitting for your consideration related recommendations designed to help AHERF to make improvements and to achieve operational efficiencies. Our comments reflect our desire to be of continuing assistance to AHERF.

The accompanying comments and recommendations are intended solely for the information and use of the Board of Trustees, management, others within the organization and the Department of Health and Human Services.

Very truly yours,

Coopers & Lybrand L.L.P.

EX. 22
WIT. C. Lisman
DATE 5/23/02
CLAIRE CROSS, RPTR

DC8230 page 1 of 16

X

Allegheny Health, Education and Research Foundation
Internal Control Observations

INDEX

Pages

Accounts Receivable Observations

General Overview

Fiscal year 1996 has proven to be yet another landmark year for AHERF with respect to its various consolidation and centralization projects. Most notably was the Delaware Valley debt refinancing, which was finalized during June of 1996. This refinancing will provide the AHERF system with less burdensome reporting requirements, in addition to eliminating various restrictions on funds that were previously reserved for repayment of debt obligations. During fiscal year 1997, the AHERF system will move ahead with centralizing other functions, including the organization's investments into a master trust arrangement. As we have noted in the past, we believe the AHERF system and management have benefited from the reorganization and consolidation projects that have been ongoing within the organization.

Revenue and Accounts Receivable Overview

Centralization projects and system conversions have continued to provide a challenging environment for the AHERF system's accounts receivable management. In addition to these projects, complexities surrounding the registration, billing and collection processes for managed care insurers and other third party payors have resulted in the growth of the system's accounts receivable balances over the past two years, with fiscal year 1996 exhibiting an increase of approximately $64 million over the previous year. As a result, our 1996 audit approach was modified to consider operational issues specific to the accounts receivable area.

Our procedures included documenting and testing various aspects of the revenue system's internal control environment, with particular attention directed to the registration, billing, collection and reserve analysis processes. Furthermore, we selected a sample of patient accounts covering a one year period and performed an evaluation of the revenue/billing process, whereby we obtained an understanding of the patient account history from the date of registration to the date of collection. We designed our procedures to consider the implications that managed care contracts and other changes in third-party reimbursements could have on the processes that AHERF must complete to be properly reimbursed by third-party payors.

As a result of our procedures, we have concluded that the controls over the establishment and monitoring of accounts receivable reserves are designed appropriately and are operating effectively so as to properly adjust accounts receivable balances to their estimated net realizable value.

With regard to the process of registering patients, billing the appropriate third-party payors and collecting amounts owed, we would recommend that management focus its attention on two items; (1) training appropriate personnel in the registration and billing of patient accounts with attention directed to the implications that managed care contracts have on these processes; and (2) establishing standardized account follow-up procedures to be deployed during the collection process.

Revenue and Accounts Receivable Overview (continued)

From the perspective of personnel training, we believe that AHERF should consider enhanced education and training of the registration staff, specifically focusing on the gathering of complete and accurate insurance and demographic data. In addition, we believe that training should be provided to all registration and billing personnel on the inter-workings of the individual managed care contracts that AHERF has negotiated. Improvements in the registration area, coupled with a better understanding of the managed care contracts, will allow management to submit accurate claims in a more efficient manner, as well as improve the timeliness of third-party claims payments.

With regard to the establishment of standardized account follow-up procedures, we noted that certain methodologies utilized by the customer service representatives are inconsistent which results in inefficiencies and delays in the processing and collection of patient claims. We recommend that a standardized account follow-up process be implemented that would entail standard note taking procedures and message recording, as well as the specific identification and review of accounts by payor, amount and aging category, which will assist in the determination of specific actions steps required for collection of the outstanding accounts.

Information System Observations

Information Services Overview

The AHERF computer environment is complex, with financial and patient care applications processed on a variety of geographically-dispersed computer systems. The Pittsburgh data center is the heart of the processing environment and it is electronically linked via AHERF's state-wide computer network to peripheral computer sites throughout the AHERF system.

During fiscal year 1996, the Information Services department completed a number of significant initiatives related to standardizing the financial and patient care applications, including:

- Migrating the patient accounting/billing and patient management systems for Allegheny University Hospitals (Elkins Park and Bucks County) and St. Christopher's Hospital for Children to the SMS Invision system,

- Implementing a common fixed asset system on the Pittsburgh mainframe for all AHERF entities, and

- Converting the materials management system for Allegheny University Hospitals (East Falls, Elkins Park and Bucks County) and St. Christopher's Hospital for Children to the main Delaware Valley local area network (LAN) system.

As part of the fiscal year 1996 audit, we reviewed the controls surrounding the maintenance and processing of selected financial systems; principally patient accounting, professional fee billing, accounts payable, purchasing, fixed assets, admissions/discharges/transfers, order entry, payroll, flexible benefits, student billing and grant accounting. Our review focused on the control procedures in place relative to the following areas:

- **Software Maintenance** - controls designed to ensure that changes to application and system software are appropriately authorized, tested, documented, and approved.

- **Computer Operations** - controls designed to ensure that authorized programs are appropriately executed, correct versions of data files are used during processing, and processing can be properly resumed in the event of computer processing failures.

- **Security** - controls designed to ensure that security exists over programs, data and other system resources, access to application functions are assigned based on job responsibilities, and computer hardware/media are secure from unauthorized access.

- **Implementation** - controls designed to ensure that new system implementation projects entail an appropriate level of management, testing, documentation and approval, and include procedures to ensure that data is accurately converted from the former systems.

Information Services Overview (continued)

In addition to reviewing the Information Services' policies and procedures, we executed a security audit tool, called CA-Examine, on the Pittsburgh mainframe to identify potential security exposures. The findings resulting from the use of this tool, which were not significant in nature, have been provided to Information Services' management.

Information Services continues to make progress in strengthening the control environment for Pittsburgh and the Delaware Valley. During fiscal year 1996, the Information Services department completed a number of significant initiatives related to strengthening controls, including:

- Implementing the RACF security package for the Pittsburgh mainframe (this included configuring RACF and developing the associated security procedures),
- Improving the software maintenance procedures through the use of the Change Man software package,
- Consolidating the mainframe computer operations procedures to the Pittsburgh region,
- Implementing a process whereby a periodic technical security review is performed over the LANs (using a security tool called the KANE Security Analyzer), and
- Addressing the four findings that we reported in fiscal year 1995.

Information Services Observation

The following observation was noted in conjunction with our procedural testing in the Information Services department:

- The disaster recovery plan, which documents the required actions to be taken if critical computer systems become inoperable and necessitate the use of an alternative computer system, contain some sections which are not current or have limited detail, and not all critical aspects of the plan have been recently tested. In addition, the plan does not address the LAN systems supported by Information Services. This may result in an unacceptable recovery period, especially for critical AHERF systems, or inaccurate recovery of data, should the computer system become inoperable.

Recommendation

We understand that a project is currently underway to update the disaster recovery plan. We recommend that management assign a priority to completing this project and ensure that the updated plan reflects the current environment and is expanded to include an appropriate level of detail and recovery procedures for the LAN systems supported by Information Services. Also, the updated disaster recovery plan should be fully tested to ensure that all aspects of the plan will operate as designed.

Management's Response

The project to update the Disaster Recovery Plan is currently in its final phase. A walk-through test of the plan is scheduled for October 31 and November 1, 1996. This updated plan will include all appropriate procedures for the recovery of mainframe and PC file server systems within the responsibilities of Information Services.

Other General Observations

Our testing procedures extend to various other operational areas within the organization, including general accounting, purchasing, payroll and benefits administration. Understanding the internal control environment of the organization and designing appropriate tests of the various controls represents the basis of our audit approach. The following observations were identified during our testing procedures.

General Accounting Observations

As discussed earlier, the AHERF system has experienced numerous transitions during the reorganization process. In addition, AHERF was faced with the adoption of Statement of Financial Accounting Standard (SFAS) No. 116, "Accounting for Contributions Received and Contributions Made," SFAS No. 117, "Financial Statements of Not-for-Profit Organizations" and SFAS No. 124, "Accounting for Certain Investments Held by Not-for-Profit Organizations."

As part of the current year audit, our procedures included discussions with various members of finance management and the testing of controls over general ledger maintenance, internal interim reporting and the interface of operational systems with the general ledger.

In summary, our testing results indicated that the reporting packages are prepared in a consistent and accurate manner and thereby enable executives and senior management to monitor the financial condition and results of operations of the AHERF system.

Human Resources and Payroll Observations

Our procedural testing of the payroll internal control environment, including discussions with various individuals in the human resources and payroll departments, resulted in the following observations:

- Approximately 300 manual payroll checks are processed monthly as the result of delays in the processing of employee status changes within the human resources/payroll systems, delays in the processing of new hire information and various adjustments/corrections,
- Temporary employees are not consistently monitored for reapproval within defined policy periods,
- Certain records are not readily available due to the corporate restructuring and consolidation of the payroll and human resources departments, and
- Edit reports are not reviewed for changes to standing data.

Furthermore, it should be noted that approximately 37% of the employment documentation for new hires is processed subsequent to their first qualifying pay period and approximately 42% of employee status changes are not processed timely and/or accurately.

Recommendation

Management should implement policies and procedures over the processing of certain personnel and payroll information to enhance the overall internal control environment. These policies and procedures should include, but should not be limited to, improving the overall processing of employee status changes and new hire information, recommunicating existing policies regarding temporary employee approvals, and utilization of edit reports to monitor changes to standing data within the human resources/payroll systems. Implementation of such procedures should assist in an overall reduction in the processing of manual checks.

Management's Response

Management concurs with the above recommendation and will strive to improve the timeliness of processing personnel information, to the extent practical, which should serve to reduce the number of manual checks.

Purchasing System Observations

The following observations were noted in conjunction with our testing of the purchasing internal control environment:

- Discrepancies between purchase requisitions, purchase orders, invoices and receipts, which resulted in more than $4 million of problem invoices at fiscal year-end, are not resolved within a timely basis,
- Purchase orders are not consistently approved by authorized employees within the AHERF system, and
- Employee authorization records have not been updated to reflect employee status changes.

Recommendation

Management should implement policies and procedures to improve the overall processing of purchasing information. These polices and procedures should include, but should not be limited to, establishing guidelines for clearing discrepancies within the purchasing system and performing an evaluation of employee authorization records to ensure that they have been properly updated.

Management's Response

Management agrees with certain aspects of the observations and has taken or will take the following corrective action.

- As of August 25, 1996, when this issue was first brought to management's attention by C&L, the total invoices on hold due to discrepancies was $3.3 million which represents less than 2.5% of the total annual dollars processed by the Pittsburgh Purchasing Department. In addition, less than one third of this total ($996,563) represented past due dollars. Approximately 50% of the problem invoices were related to one distributor of medical products who implemented invalid price increases with no notification to Allegheny General Hospital. Management has received appropriate information from the medical products distributor to resolve their discrepancies. As of September 19, 1996, the total invoices on hold due to discrepancies was $2.1 million and the amount past due has decreased by one-third to $616,798. Purchasing management will continue to monitor the invoices on hold and focus on decreasing the past due amount to zero.

- Purchasing will implement formal policies and procedures to enforce compliance with the organizational policies that address purchasing authorization by October 15, 1996.

- Due to a hardware and software upgrade to the computer used to maintain the purchasing authorization database, we were unable to update this information for at least two months. The computer problem has since been corrected and the database is currently being updated based on add/delete/change forms received during that period.

Retirement Plan Observations

In order to design our tests of the pension system, we obtained an understanding of the internal control system and tested its operation through various inquiries and sampling applications. Generally, the control system appears to be operating effectively; however, certain matters were identified during the course of our audit which should be considered by management. These are summarized below along with our recommendations.

Findings

C&L identified various discrepancies in the census data provided to Hewitt & Associates, the actuary for the AHERF Retirement Plan (the Plan). Such items, which appear to be primarily the result of delays in the processing of information, include the following:

- New hires from January through July of 1996 were incorrectly included in the December 31, 1995 census data,
- Employees transferring among affiliates within the AHERF system were often listed twice in the census data,
- Certain terminated employees were not properly designated as such in the census data,
- Pittsburgh region census data pension hours were frequently added to payroll hours, resulting in an improper doubling of qualifying pension hours, and
- Leave pay and service were not properly credited to participants.

It should be further noted that a significant amount of reliance is placed on the actuary to identify inconsistencies within the annual and historical census data.

Recommendation

While we understand that we were provided interim data as a basis of our testing, management should implement policies and procedures to address the various discrepancies identified to ensure that the Plan is in compliance with ERISA regulations. Such procedures should include, but should not be limited to, the utilization of in-house edit reports for preparation of the census data, reconciliation of census data submitted to the actuary to the data used in the valuation, improvements in processing of relevant employee status changes and an overall evaluation of the internal control environment in the benefits department.

Management's Response

Reconciliations performed to identify discrepancies such as the ones listed in the findings are performed on a routine basis. However, this normal reconciliation process was delayed this year due to other priorities identified relative to the 403(b) plan. As a result, C&L was reviewing interim data rather than data in final form. The reconciliation process is currently being completed. C&L's concurrence will be obtained regarding finalization of the data and procedures which will be formalized during the next two months.

Status of Prior Year Observations

The following summarizes the status of observations identified during the fiscal year 1995 audit.

Comments which have been appropriately addressed during fiscal year 1996:

- Periodic Interim Payment (PIP) Accounts should be Reconciled and Differences Resolved on a Periodic Basis
- Development of Expanded Accounts Payable Reports should be Considered
- Implementation of an In-House Fixed Asset System should be Considered
- Property and Equipment Disposal Procedures should be Enhanced
- Consideration should be Given to the Performance of a Property and Equipment Physical Inventory Count
- Segregation of Duties over the Allegheny University East Falls Hospital's (formerly the Medical College of Pennsylvania Hospital) Patient Care System should be Improved
- Security over the Allegheny University Center City Hospital's (formerly Hahnemann University Hospital) Patient Accounting/Care Systems could be Strengthened
- Security over the Delaware Valley Purchasing/Payable Systems should be Strengthened
- User Access Rights for Allegheny General Hospital's Patient Care Systems should be Periodically Reviewed

Comments which are still applicable for fiscal year 1996:

Accounts Receivable Observations

As previously discussed, management recognizes the unique issues surrounding AHERF's accounts receivable management. Though the following observations have not been addressed during 1996, appropriate follow-up procedures are currently in the development stage.

- Deterioration of Accounts Receivable Aging
- Methodology for Establishing Bad Debt Reserves should be Applied Consistently
- Patient Liability Amounts should be Reclassified to Self-Pay
- Procedures to Identify Charity Care should be Enhanced in the Delaware Valley

Other General Observations

Although the following observation has not been addressed during 1996, purchasing and accounts payable management are currently in the process of evaluating the potential operational efficiencies of implementing appropriate policies and procedures to address the following recommendation.

- Security and Recovery Procedures for the Pittsburgh Materials Management/Accounts Payable Systems Should be Strengthened

EXHIBIT 0029

II. A. 13. b

AHERF

Allegheny Health, Education and Research Foundation

D.L. Clark Building, 4th Floor
Pittsburgh, Pennsylvania 15212

Memorandum

TO: Stephen H. Spargo
Senior Vice President, Corporate Support Services

FROM: Daniel J. Cancelmi
Senior Director, Financial Services

DATE: September 24, 1996

SUBJECT: **Delaware Valley Accounts Receivable Reserves**

In my memorandum dated September 20, 1996, the status of the Delaware Valley aging categories was discussed. In short, since the aging categories continue to deteriorate, the monthly financial statement results continue to be burdened with levels of bad debt expense which exceed budgeted amounts. Accordingly, we are continually faced with attempting to explain negative bad debt variances to operating unit personnel, which create a distraction for the operating units to focus on. For obvious selfish reasons, we in Finance may want to reconsider our accounting treatment for addressing uncollectible accounts.

I believe it is fair to state that there is a pool of old receivables that we will not be able to collect. The questions that all of us have been struggling with is how much is the amount of bad accounts and can we afford to write the accounts off. For almost a year, we have bled the accounts off or suffered the consequences of deteriorating aging categories, which has served to impair operating results. In turn, Finance has had to react to a barrage of inquiries from operating unit personnel. Since their patience may be wearing thin, now may be the time to "bite the bullet" and write off accounts using existing bad debt reserves.

Certainly, upon the writeoff of the old accounts, our remaining reserves will be negligible. However, the strategy would be to build up the reserves over the remainder of fiscal 1997. Furthermore, for the foreseeable future, the operating units would not be burdened with the excess bad debt levels. Essentially, assuming the billing and collection processes function as designed, the aging categories should not deteriorate to the point where we have to deal with a problem of the magnitude created by the patient accounting consolidation and system conversions.

As we have discussed in recent days, several options have been advanced to dispose of the old accounts. Based on accounts receivable data as of August 31, 1996 and the associated reserves, the following analysis is one option we may want to pursue to eliminate the old accounts.

EX. 29
WIT C. Cisman
DATE 5/23/02
CLAIRE GROSS, RPTR

DBR-RS-0225

Stephen H. Spargo
September 24, 1996
Page 2

Refer to the following:

<u>Proposed Inpatient and Outpatient Accounts to be Written Off</u>:

Entity	Aging Category	($ in 000s)		
Center City Hospital	365+	$21,513		-10,850
	271-365	7,050		
			28,563	- includes wc reserves [illegible]
East Falls Hospital	365+	9,940		
	211-365	6,927		
			16,867	11575
St. Christopher's	All PATCOM Accounts:			
	365+	10,260		
	<365	8,069		
			18,329	21053
Elkins Park Hospital	All PATCOM Accounts:			
	365+	5,547		
	<365	4,143		
			9,690	
Bucks County Hospital	All PATCOM Accounts:			
	365+	4,440		
	<365	3,563		
			8,003	12142
	Total Accounts to be Written Off		$81,452	

<u>Existing Reserves to be Used to Cover Writeoffs</u>:

◆	Bad debt reserves	Center City Hospital	$29,922		excludes 17.5m
		East Falls Hospital	7,457		
		St. Christopher's	9,239		
		Elkins Park Hospital	3,707		
		Bucks County Hospital	3,542		
				53,867	
◆	Other reserves segregated for bad debts @ 6/30/96			17,500	
◆	AGH capitalized interest reserve			7,500	Not transferred
◆	Other reserves to be used			2,585	
				~~$81,452~~	

If the above approach is taken, we would be left with <u>zero</u> bad debt reserves as of August 31, 1996. However, budgeted Delaware Valley bad debt expense for the remainder of fiscal 1997 is approximately $29,700. Assuming any further writeoffs for the remainder of fiscal 1997 are not significant, we may be able to build the bad debt reserve back up in the $25 - $30 million range by June 30, 1997. Furthermore, any future collections on the accounts to be written off of $81,452 would also increase our bad debt reserve as of June 30, 1997.

DBR-RS-0226

There are certainly other options that can be pursued. This is just one suggestion as to how we can put this problem behind us.

If you have any questions or need additional information, please contact me at your convenience.

DJC/jaf
s/jodio/wp/dan/memos-ts/dv-arres.mem

EXHIBIT 0041

AHERF

Allegheny Health, Education and Research Foundation

D.L. Clark Building, 4th Floor
Pittsburgh, Pennsylvania 15212

Memorandum

TO: Charles P. Morrison
Senior Vice President, Chief Financial Officer - DV

FROM: Daniel J. Cancelmi
Senior Director, Financial Services

DATE: June 20, 1997

SUBJECT: **Delaware Valley Bad Debt Reserve Shortfall**

The following is a summary of the bad debt reserve shortfall as of May 31, 1997. It should be noted that the following estimated required bad debt reserve levels are predicated on the new reserve methodology that we have discussed in the past.

($ in 000s)

	Required Bad Debt Reserve As of May 31, 1997	Unadjusted General Ledger Bad Debt (Reserve) Debit	Unadjusted Shortfall	Graduate Reserves	**Adjusted Shortfall As of May 31, 1997**
Bucks County	$(4,592)	$3,955	$8,547	$(7,000)	**$1,547**
Elkins Park	(14,424)	(3,631)	10,793	(8,000)	**2,793**
Hahnemann	(32,533)	(11,427)	21,106	(10,000)	**11,106**
MCP	(20,509)	582	21,091	(15,000)	**6,091**
St. Christopher's	(9,899)	3,647	13,546	(10,000)	**3,546**
	$(81,957)	$(6,874)	$75,083	$(50,000)	**$25,083**

If you have any questions or need additional information, please contact me at your convenience.

cc: David McConnell
Joe Dionisio
Al Adamczak
Greg Snow
Russ Laing
Chuck Lisman
Robin Schaffer

EX 41
WIT. C. Lisman
DATE 5/23/02
CLAIRE GROSS, RPTR

TN RC013 02474

EXHIBIT 0043

To Chuck

AHERF

Allegheny Health, Education and Research Foundation

D.L. Clark Building, 4th Floor
Pittsburgh, Pennsylvania 15212

Memorandum

TO: Albert Adamczak
Vice President, Financial Services

FROM: Daniel J. Cancelmi
Senior Director, Corporate Accounting and Financial Reporting

DATE: July 3, 1997

SUBJECT: **Reserves Utilized to Cover Bad Debt Shortfalls and Health Partners Deficits**

In order to address two of the more pronounced exposure areas prior to our year end audit, various reserves have been utilized to eliminate bad debt reserve shortfalls and Health Partners deficits. A summary of the shortfalls and deficits follows:

($ in 000s)

	MCPH	Elkins	Bucks	Hahnemann	SCHC	Total
Bad debt reserve shortfall	$6,091	$2,793	$1,547	$11,106	$3,546	$25,083
Unrecorded Health Partners operating losses	425	---	---	640	1,367	2,432
Unrecorded Health Partners equity losses	767	---	---	---	660	1,427
	$7,283	$2,793	$1,547	$11,746	$5,573	$28,942

Attachments A and B to this memorandum outline the respective reserves utilized to cover the aforementioned shortfalls.

If you have any questions or need additional information, please contact me at your convenience.

Attachments

DJC/jaf
s/jodie/wp/dan/0703971.mem

cc: Joe Dionisio
Chuck Morrison
Greg Snow

EX 43
WIT C. Lisman
DATE 5/23/06
CLAIRE GROSS, RPTR.

Attachment A

Reserves Used to Cover Bad Debt Shortfall

($ in 000s)

		MCPH	EPH	BCH	HUH	SCHC	Tota
	Bad Debt Shortfall	($6,091)	($2,793)	($1,547)	($11,106)	($3,546)	($25.
	Reserves Utilized:						
	Capitalized Interest	1,191	24	59	1,355	328	2
CTYE1	University Cap. Interest	-	-	-	750	-	
	Mgmt. Services Cap. Interest	-	-	-	459	-	
CTYE2	HUH Depreciation Reserve	-	-	-	1,100	-	1
	Graduate Reserves:						
	Excess Bad Debt	2,000	-	-	-	-	2
	Prudent Buyer	3,000	-	-	-	-	3
CTYE3	PFMA	-	2,000	-	-	-	2
	Pension	-	-	1,100	-	-	1
	Workers' Comp	-	-	400	-	900	1
	Parkview Reserves:						
	PFMA	-	-	-	2,000	-	2
CTYE4	Malpractice	-	-	-	911	-	
	Pension	-	-	-	500	-	
	City Ave. Reserves:						
CTYE5	Malpractice	-	-	-	1,416	-	1
	Pension	-	-	-	400	-	
	Mt. Sinai Reserves:						
	Malpractice	-	-	-	686	-	
CTYE6	Pension	-	-	-	200	-	
	Greater Atlantic Monies	-	-	-	824	-	
	Rancocas Reserves:						
	Malpractice	-	-	-	628	-	
CTYE7	General A/P	-	700	-	-	1,000	
	Pension	-	-	-	-	900	
	Excess Charge Diff.	-	-	-	-	500	
	Total Reserves Utilized	6,191	2,724	1,559	11,229	3,628	2
	Adjusted (Shortfall)/Excess	$100	($69)	$12	$123	$82	

s/jodie/123/shortfall.wk4

Attachment B

Reserves Used to Cover Health Partners Deficits

($ in 000s)

	HUH Operating Losses	MCPH Operating Losses	MCPH Unrecorded Equity Loss	St. Christopher's Operating Losses	St. Christopher's Unrecorded Equity Loss	Total
	$ (640)	$ (425)	$ (767)	$ (1,367)	$ (660)	$ (3,859)
Reserves Utilized:						
HUH Inventory Reserve	635	-	-	-	-	635
Elkins Health Partners Reserves	-	-	-	158	-	158
Bucks Health Partners Reserves	-	-	-	162	-	162
SCHC General A/P Reserve	-	-	-	700	-	700
MCPH General A/P Reserve	-	350	-	-	-	350
Bucks General A/P Reserve	-	-	-	400	-	400
Mgmt. Services General A/P Reserve	-	75	250	-	-	325
Graduate General A/P Reserve	-	-	500	-	700	1,200
Total Reserves Utilized	635	425	750	1,420	700	3,930
Adjusted (Shortfall)/Excess	$ (5)	$ -	$ (17)	$ 53	$ 40	$ 71

CTYC 8

s/jodie/123/deficits.wk4

EXHIBIT 0049

AHERF
INCOME STATEMENT INFORMATION
FY 97

	Net Income/(Loss) Unadjusted June YTD	Use of Reserves	Net Income/(Loss) Adjusted June YTD	Net Income/(Loss) YTD June Budget	Actual vs. Budget Variance	FY 97 Projection per FY 98 Budget	FY 97 Actual vs. Projection Variance	FY 96 Actual
Allegheny General Hospital	$9,638	$2,250	$11,888	$105	$11,783	$12,000	($112)	$20,501
AUMC:								
Forbes Hospitals	13,119	-	13,119	10,300	2,819	12,465	654	-
Allegheny Valley Hospital	6,968	-	6,968	5,199	1,769	7,135	(167)	-
Total AUMC	20,087	-	20,087	15,499	4,588	19,600	487	-
AUH:								
MCP	6,681	5,000	11,681	7,656	4,025	11,627	54	5,145
Elkins Park	(228)	3,000	2,772	2,826	(54)	2,597	175	2,909
Bucks County	2,768	1,300	4,068	2,521	1,547	4,016	52	2,597
Hahnemann	1,882	10,000	11,882	16,064	(4,182)	11,760	122	6,953
Total AUH	11,103	19,300	30,403	29,067	1,336	30,000	403	17,604
St. Christopher's	7,124	1,500	8,624	7,502	1,122	8,500	124	15,433
AUHS	(18,153)	2,000	(16,153)	(840)	(15,313)	(13,300)	(2,853)	(1,794)
Total DVOG	74	22,800	22,874	35,729	(12,855)	25,200	(2,326)	31,243
ASRI	(5,836)	-	(5,836)	(10,836)	5,000	(6,100)	264	(14,180)
Centennial:								
Graduate	7,417	4,000	11,417	8,000	3,417	9,000	2,417	-
Mt. Sinai	-	-	-	-	-	-	-	-
City Avenue	130	-	130	(500)	630	(500)	630	-
Parkview	(266)	-	(266)	(500)	234	(500)	234	-
Total Centennial	7,281	4,000	11,281	7,000	4,281	8,000	3,281	-
AH, New Jersey	757	2,500	3,257	4,000	(743)	3,000	257	-
AIHG	(61,421)	-	(61,421)	(39,030)	(22,391)	(59,250)	(2,171)	(40,875)
AHERF	24,934	-	24,934	22,923	2,011	24,800	134	24,109
Eliminations	(4,772)	-	(4,772)	1,412	(6,184)	(4,750)	(22)	(101)
Consolidated	($9,258)	$31,550	$22,292	$36,802	($14,510)	$22,500	($208)	$20,697

s:\j\123\incmstmt.97

(6/97)

AHERF
INCOME STATEMENT INFORMATION
FY 97

Proposed

Net Income/(Loss) Net Income/(Loss) Net Income/(Loss)

	Unadjusted June YTD	Adjustments	Adjusted June YTD	YTD June Budget	Actual vs. Budget Variance	FY 97 Projection per FY 98 Budget	FY 97 Actual vs. Projection Variance	FY 96 Actual
Allegheny General Hospital	9,638	2,250	11,888	$9,530		$12,000		$20,501
AUMC:								
Forbes Hospitals	13,119			10,536		12,465		-
Allegheny Valley Hospital	6968			5,329		7,135		-
Total AUMC	-	-	-	15,865	-	19,600	-	-
AUH:								
MCP	6,681	5,000	11,681	~~7,645~~		11,627		5,145
Elkins Park	<228>	3,000	2,772	~~2,834~~		2,597		2,909
Bucks County	2,768	1,300	4,068	1,916		4,016		2,597
Hahnemann	1,882	10,000	11,882	~~16,055~~		11,760		6,953
Total AUH	11,103	19,300	30,403	~~28,450~~	-	30,000	-	17,604
St. Christopher's	7,124	1,500	8,624	~~7,531~~		8,500		15,433
AUHS	<18,153>	2,000 ~~4,000~~	<16,153> ~~<14,153>~~	(10,265)		(13,300)		(1,794)
Total DVOG	74 [illegible]	22,800 ~~24,800~~	22,874 ~~24,874~~	25,716	-	25,200	-	31,243
ASRI				(10,836)		(6,100)		(14,180)
Centennial:								
Graduate	7,417	4,000 ~~2,000~~	11,417 ~~9,417~~	8,000		9,000		-
Mt. Sinai	-	-	-	-		-		-
City Avenue	140 ~~130~~	-	140 ~~130~~	<245> ~~(500)~~		(500)		-
Parkview	<258> ~~<200>~~	-	<258> ~~<266>~~	39 ~~(500)~~		(500)		-
Total Centennial	7,299	4,000 ~~2000~~	11,299 ~~9,299~~	7,000	-	8,000	-	-
AH, New Jersey	757	2,500	3,257	4,000		3,000		-
AHG	<61,421>	-	<61,421>	(39,030)		(59,250)		(40,875)
AHERF				22,923		24,800		24,109
Eliminations				2,000		(4,750)		(101)
Consolidated	-	-	-	$37,168	-	$22,500	-	$20,697

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EXHIBIT 0050

AHERF
INCOME STATEMENT INFORMATION
FY 97

	Net Income/(Loss) Unadjusted June YTD	Use of Reserves	Net Income/(Loss) Adjusted June YTD	Net Income/(Loss) YTD June Budget	Actual vs. Budget Variance	FY 97 Projection per FY 98 Budget	FY 97 Actual vs. Projection Variance	FY 96 Actual
Allegheny General Hospital	$9,638	$2,250	$11,888	$105	$11,783	$12,000	($112)	$20,501
AUMC:								
Forbes Hospitals	13,119	-	13,119	10,300	2,819	12,465	654	-
Allegheny Valley Hospital	6,968	-	6,968	5,199	1,769	7,135	(167)	-
Total AUMC	20,087	-	20,087	15,499	4,588	19,600	487	-
AUH:								
MCP	6,681	5,000	11,681	7,656	4,025	11,627	54	5,145
Elkins Park	(228)	3,000	2,772	2,826	(54)	2,597	175	2,909
Bucks County	2,768	1,300	4,068	2,521	1,547	4,016	52	2,597
Hahnemann	1,882	~~10,000~~ 10,341	11,882	16,064	(4,182)	11,760	122	6,953
Total AUH	11,103	19,300	30,403	29,067	1,336	30,000	403	17,604
St. Christopher's	7,124	~~1,500~~ 1159	8,624	7,502	1,122	8,500	124	15,433
AUHS	(18,153)	2,000	(16,153)	(840)	(15,313)	(13,300)	(2,853)	(1,794)
Total DVOG	74	22,800	22,874	35,729	(12,855)	25,200	(2,326)	31,243
ASRI	(5,836)	-	(5,836)	(10,836)	5,000	(6,100)	264	(14,180)
Centennial:								
Graduate	7,417	4,000	11,417	8,000	3,417	9,000	2,417	-
Mt. Sinai	-	-	-	-	-	-	-	-
City Avenue	130	-	130	(500)	630	(500)	630	-
Parkview	(266)	-	(266)	(500)	234	(500)	234	-
Total Centennial	7,281	4,000	11,281	7,000	4,281	8,000	3,281	-
AH, New Jersey	757	2,500	3,257	4,000	(743)	3,000	257	-
AIHG	(61,421)	-	(61,421)	(39,030)	(22,391)	(59,250)	(2,171)	(40,875)
AHERF	24,934	-	24,934	22,923	2,011	24,800	134	24,109
Eliminations	(4,772)	-	(4,772)	1,412	(6,184)	(4,750)	(22)	(101)
Consolidated	($9,258)	$31,550	$22,292	$36,802	($14,510)	$22,500	($208)	$20,697

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EX 50
WIT C. Cisman
DATE 5/23/02
CLAIRE GROSS RPR

TN C9A 01784

AHERF
Income Statement Information
FY 97

	Adjusted Net Income/(Loss) June YTD	Adjustments June YTD	Without Cushion Net Income/(Loss) June YTD	
Allegheny General Hospital	$11,888		$11,888	
AUMC:				
Forbes Hospitals	13,119		13,119	
Allegheny Valley Hospital	6,968		6,968	
Total AUMC	20,087	0	20,087	
AUH:				
MCP	11,681	16,700	(5,019)	$11.7M AI schedule/$5.0M June
Elkins Park	2,772	8,800	(6,028)	$5.8M AI schedule/$3.0M June
Bucks County	4,068	3,600	468	$2.3M AI schedule/$1.3M June
Hahnemann	12,223	39,800	(27,577)	$29.8M AI schedule/$10.0M June
Total AUH	30,744	68,900	(38,156)	
St. Christopher's	8,283	10,659	(2,376)	$9.5M AI schedule/$1.2M June
AUHS	(16,153)	5,400	(21,553)	$4.0M Clearing/$0.5M Hamot/$0.9M Queen Lane
Total DVOG	22,874	84,959	(62,085)	
ASRI	(5,836)		(5,836)	
Centennial:				
Graduate	11,417	14,400	(2,983)	$9.4M HSI/$1.0M Bad Debt/$4.0M June
Mt. Sinai	-	-	0	
City Avenue	130	2,877	(2,747)	$1.2M HSI/$1.7M General
Parkview	(266)	1,453	(1,719)	$0.4M HSI/$1.1M General
Total Centennial	11,281	18,730	(7,449)	
AH, New Jersey	3,257	3,000	257	$0.5 Bad Debt/$2.5M June
AIHG	(61,421)		(61,421)	
AHERF	24,934		24,934	
Eliminations	(4,772)		(4,772)	
Consolidated	$22,292	$106,689	($84,397)	

TN C9A 01785

6/97

Proposed

AHERF
INCOME STATEMENT INFORMATION
FY 97

Net Income/(loss) Net Income/(loss) Net Income/(loss)

	Unadjusted June YTD	Adjustments	Adjusted June YTD	YTD June Budget	Actual vs. Budget Variance	FY 97 Projection per FY 98 Budget	FY 97 Actual vs. Projection Variance	FY 96 Actual
Allegheny General Hospital	9,638	2,250	11,888	$9,530		$12,000		$20,501
AUMC:								
Forbes Hospitals	13,119			10,536		12,465		-
Allegheny Valley Hospital	6968			5,329		7,135		-
Total AUMC	-	-	-	15,865	-	19,600	-	-
AUH:								
MCP	6,681	5,000	11,681	~~7,645~~		11,627		5,145
Elkins Park	<228>	3,000	2,772	~~2,834~~		2,597		2,909
Bucks County	2,768	1,300	4,068	~~1,916~~		4,016		2,597
Hahnemann	1,882	10,000	11,882	~~16,055~~		11,760		6,953
Total AUH	11,103	19,300	30,403	~~28,450~~	-	30,000	-	17,604
St. Christopher's	7,124	1,500	8,624	~~7,551~~		8,500		15,433
UHS	<18,153>	2,000 ~~4,000~~	<16,153> ~~<14,153>~~	(10,265)		(13,300)		(1,794)
Total DVOG	79 [illegible]	~~24,800~~ 20,800	~~24,874~~ 22,874	25,716	-	25,200	-	31,243
ASRI				(10,836)		(6,100)		(14,180)
Centennial:								
Graduate	7,417	4,000 ~~2,000~~	11,417 ~~11,9[illegible]~~	8,000		9,000		-
Mt. Sinai	–	–	-	-		-		-
City Avenue	140 ~~130~~	–	140 ~~130~~	<245> (500)		(500)		-
Parkview	<258> ~~<[illegible]>~~	–	<258> ~~<[illegible]>~~	39 ~~(500)~~		(500)		-
Total Centennial	7,299	4,000 ~~2,000~~	11,92[illegible] ~~[illegible]~~	7,000	-	8,000	-	-
AH, New Jersey	757	2,500	3,257	4,000		3,000		-
AIHG	<61,421>	–	<61,421>	(39,030)		(59,250)		(40,875)
AHERF				22,923		24,800		24,109
Eliminations				2,000		(4,750)		(101)
Consolidated	-	-	-	$37,168	-	$22,500	-	$20,697

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EXHIBIT 0058

Allegheny Health, Education and Research Foundation

Consolidated

Financial

Statements

for the

year ended

June 30, 1997

DEPOSITION EXHIBIT
#58
AKF

TN CBC43B 00893

ALLEGHENY HEALTH, EDUCATION AND RESEARCH FOUNDATION

Index to Financial Statements

Coopers
&Lybrand

Coopers & Lybrand L.L.P.

a professional services firm

Report of Independent Accountants

To the Board of Trustees of
Allegheny Health, Education and Research Foundation:

We have audited the accompanying consolidated balance sheet of Allegheny Health, Education and Research Foundation as of June 30, 1997 and the related consolidated statements of operations, changes in net assets, and cash flows for the year then ended. These consolidated financial statements are the responsibility of Allegheny Health, Education and Research Foundation's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Allegheny Health, Education and Research Foundation as of June 30, 1997 and the consolidated results of its operations, changes in net assets, and cash flows for the year then ended in conformity with generally accepted accounting principles.

Coopers & Lybrand LLP

Pittsburgh, Pennsylvania
September 4, 1997, except for the second paragraph of Note 16 which is dated September 12, 1997, and Note 17 which is dated January 8, 1998

TN CBC43B 00895

ALLEGHENY HEALTH, EDUCATION AND RESEARCH FOUNDATION

CONSOLIDATED BALANCE SHEET
as of June 30, 1997
(Dollars in Thousands)

ASSETS

Current assets:		
Cash and cash equivalents	$	20,516
Short-term investments		3,804
Assets limited or restricted as to use		73,922
Receivables:		
Patient accounts, less allowance for uncollectible accounts of $127,424		367,061
Grants and other		92,119
Inventories		33,466
Prepaid expenses		15,168
Total current assets		606,056
Assets limited or restricted as to use, net of current portion		780,821
Property and equipment, net		920,870
Other assets		315,933
Total assets	$	2,623,680

LIABILITIES AND NET ASSETS

Current liabilities:		
Accounts payable and accrued expenses	$	489,522
Deferred revenue		16,373
Line of credit		57,100
Current portion of long-term debt		34,704
Total current liabilities		597,699
Long-term debt, net of current portion		960,273
Self-insurance liabilities		91,841
Other noncurrent liabilities, includes $20,249 of deferred revenue		149,101
Total liabilities		1,798,914
Net assets:		
Unrestricted		569,796
Restricted:		
Temporarily		110,758
Permanently		144,212
Total net assets		824,766
Total liabilities and net assets	$	2,623,680

The accompanying notes are an integral part of the consolidated financial statements.

ALLEGHENY HEALTH, EDUCATION AND RESEARCH FOUNDATION

CONSOLIDATED STATEMENT OF OPERATIONS
For the year ended June 30, 1997
(Dollars in Thousands)

Unrestricted revenues, gains and other support:	
Net patient service revenue	$ 1,702,671
Research and training support	71,524
Academic activities	64,434
Investment income	85,953
Net assets released from restrictions used for operations	47,229
Other revenue	83,156
Total revenues, gains and other support	2,054,967
Expenses:	
Salaries, wages and fringe benefits	1,187,601
Materials, supplies and services	700,154
Depreciation and amortization	107,691
Interest	37,595
Total expenses	2,033,041
Net income	21,926
Net assets released from restrictions used for acquisition of property and equipment	395
Unrealized depreciation of investments	(9,146)
Transfers to other net assets	(1,667)
Other	(948)
Increase in unrestricted net assets	$ 10,560

The accompanying notes are an integral part of the consolidated financial statements.

ALLEGHENY HEALTH, EDUCATION AND RESEARCH FOUNDATION

CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS
For the year ended June 30, 1997
(Dollars in Thousands)

Unrestricted net assets:	
Net income	$ 21,926
Net assets released from restrictions used for acquisition of property and equipment	395
Unrealized depreciation of investments	(9,146)
Transfers to other net assets	(1,667)
Other	(948)
Increase in unrestricted net assets	10,560
Temporarily restricted net assets:	
Contributions	12,181
Investment income	22,035
Net assets released from restrictions	(46,883)
Unrealized depreciation of investments	(6,009)
Transfers from other net assets	2,473
Acquisition of affiliates	18,015
Other	(8)
Increase in temporarily restricted net assets	1,804
Permanently restricted net assets:	
Contributions	7,560
Investment income	1,105
Unrealized appreciation of investments	9,848
Transfers to other net assets	(806)
Acquisition of affiliates	24,654
Other	(741)
Increase in permanently restricted net assets	41,620
Increase in net assets	53,984
Net assets, beginning of year	770,782
Net assets, end of year	$ 824,766

The accompanying notes are an integral part of the consolidated financial statements.

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ALLEGHENY HEALTH, EDUCATION AND RESEARCH FOUNDATION

CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended June 30, 1997
(Dollars in Thousands)

Cash flows from operating activities:	
Change in net assets	$ 53,984
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation and amortization	107,691
Net realized losses on equity investments	107
Equipment valuation adjustment	(2,204)
Net assets balances related to business combinations	(42,669)
Increase/(decrease) in cash from changes in:	
Short-term investments	7,426
Receivables	(46,021)
Inventories	(1,647)
Prepaid expenses	5,257
Accounts payable and accrued expenses	41,971
Deferred revenue	(9,214)
Self-insurance liabilities	(4,248)
Other	(30,840)
Net cash provided by operating activities	79,593
Cash flows from investing activities:	
Acquisition of property and equipment, net	(112,898)
Acquisition of physician practice assets, net	(12,709)
Acquisition of physician practice intangible assets	(18,864)
Proceeds from sale of property and equipment	34,080
Decrease in assets limited or restricted as to use, net	45,778
Cash balances related to business combinations	11,988
Net cash used by investing activities	(52,625)
Cash flows from financing activities:	
Net drawdowns on lines of credit	10,644
Repayments of long-term debt	(18,635)
Net cash used by financing activities	(7,991)
Net increase in cash and cash equivalents	18,977
Cash and cash equivalents, beginning of year	1,539
Cash and cash equivalents, end of year	$ 20,516
Supplemental disclosure:	
Cash paid for interest, net of capitalized interest	$ 43,364
Noncash transactions :	
Business combinations	Refer to Note 15

The accompanying notes are an integral part of the consolidated financial statements.

ALLEGHENY HEALTH, EDUCATION AND RESEARCH FOUNDATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 1997
(Dollars in Thousands)

1. **Organization:**

Allegheny Health, Education and Research Foundation (AHERF), is the parent company of Allegheny General Hospital (AGH); Allegheny University Medical Centers (AUMC); Allegheny University of the Health Sciences (AUHS); Allegheny University Hospitals (AUH); Allegheny Hospitals, Centennial (AH, Centennial); Allegheny Hospitals, New Jersey (AH, New Jersey); St. Christopher's Hospital for Children (St. Christopher's); Diversified Health Group, Inc. (DHG); Allegheny Integrated Health Group (AIHG) and Allegheny Health Services Providers Insurance Company (AHSPIC). AGH, AUMC, AUHS, AUH, AH, Centennial, AH, New Jersey, St. Christopher's, and AIHG are Pennsylvania nonprofit charitable organizations. DHG, incorporated as a for-profit corporation, is wholly owned by AHERF. AHSPIC is a captive insurance company incorporated in the Cayman Islands, which is also wholly owned by AHERF. AHERF's commitment to patient care, education, and research is demonstrated by its operation (through its nonprofit subsidiaries) of twelve acute care hospital facilities, one psychiatric hospital, a pediatric hospital, a medical school, undergraduate and graduate schools of health sciences and humanities, a research institute, and physician practices.

For external debt reporting purposes, AHERF presents certain financial information by various obligated groups. The operating units that comprise the various obligated groups are summarized as follows:

Allegheny General Hospital Obligated Group (AGHOG):
- Allegheny General Hospital

Allegheny University Medical Centers Obligated Group:
- Allegheny Valley Hospital
- Forbes Health System

Allegheny Hospitals, Centennial:
- Allegheny University Hospitals, City Avenue
- Allegheny University Hospitals, Graduate
- Allegheny University Hospitals, Mt. Sinai
- Allegheny University Hospitals, Parkview

Delaware Valley Obligated Group (DVOG):
- Allegheny University Hospitals, Bucks County
- Allegheny University Hospitals, Elkins Park
- Allegheny University Hospitals, Hahnemann
- Allegheny University Hospitals, MCP
- Allegheny University of the Health Sciences
- Management Support Services (Corporate Division)
- St. Christopher's Hospital for Children

ALLEGHENY HEALTH, EDUCATION AND RESEARCH FOUNDATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 1997
(Dollars in Thousands)

1. <u>Organization:</u> (continued)

In fiscal year 1997, the Forbes Health System (FHS) and Allegheny Valley Health System (AVH) became part of AUMC via statutory mergers, effective January 1, 1997 and March 1, 1997, respectively. Also, during fiscal year 1997, former Graduate Health System hospitals (Graduate Hospital, Mt. Sinai Hospital, City Avenue Hospital and Parkview Hospital) became part of AH, Centennial and Rancocas Hospital became part of AH, New Jersey via statutory mergers, effective May 1, 1997. The operations of these entities are included in the consolidated statement of operations from their respective dates of merger into the AHERF System. These mergers were accounted for under the purchase method of accounting.

During fiscal year 1997, AHERF purchased one of the largest physician practice groups (along with certain physician practice assets) in the Pittsburgh region, commonly referred to as Penn Group Medical Associates, from Coventry Corporation, which is the owner of HealthAmerica Pennsylvania, Inc. (HealthAmerica). As a result of this acquisition, 76 physicians were added to the AHERF System. In connection therewith, AHERF and HealthAmerica entered into a risk-sharing arrangement whereby AHERF receives certain premium levels to cover the treatment HealthAmerica subscribers receive from AHERF-affiliated physicians. At the time of the acquisition, AHERF assessed and recorded reserves for estimated amounts where costs will exceed premium revenues under this contract.

2. <u>Accounting Policies:</u>

The significant accounting policies applied in preparing the accompanying consolidated financial statements are summarized below:

<u>Principles of Consolidation:</u>

The accompanying consolidated financial statements include the accounts of AHERF and its wholly owned or controlled subsidiaries. All intercompany transactions have been eliminated in consolidation.

2. Accounting Policies: (continued)

Net Income:

Consistent with industry practice, certain changes in unrestricted net assets are excluded from net income, including unrealized gains and losses on investments other than trading securities, permanent transfers of assets to and from affiliates, and contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purpose of acquiring such assets).

Use of Estimates:

The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements. Estimates also affect the amounts reported as revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents:

Cash and cash equivalents include highly liquid investments purchased with a maturity date of three months or less.

Investments and Investment Income:

A majority of AHERF's non-pension investments (including endowment, funded depreciation, and special purpose funds) have been commingled for investment management purposes and are included in the AHERF Non-Pension Master Trust structure (Master Trust). While AHERF's investment program has been centralized, identification of investments by specific entity has been maintained pursuant to the development of an internal accounting system. Investments in the Master Trust consist primarily of domestic and international equities, government obligations, corporate obligations and cash. Investments within the Master Trust are stated at estimated fair value.

AHERF's other investments are carried at estimated fair value and consist generally of investments similar to those in the Master Trust.

ALLEGHENY HEALTH, EDUCATION AND RESEARCH FOUNDATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 1997
(Dollars in Thousands)

2. Accounting Policies: (continued)

Investments and Investment Income: (continued)

Donated investments are recorded at their estimated fair value at the date of contribution. Unrestricted investment income and gains and losses on sales of investments, which are based on average cost, are included in investment income.

Investment Risks:

Investment securities are exposed to various risks, such as interest rate, market and credit. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the value of investment securities, it is at least reasonably possible that changes in risks in the near term could materially affect the amounts reported in the consolidated balance sheet and consolidated statement of operations.

Grants Receivable and Deferred Revenue:

Grants and contracts are recognized in the year in which expenditures are made, either as research support or, in the case of expenditures for property and equipment, as additions to net assets. Receivables are recorded when contract and grant expenditures exceed funds received. Deferrals are recorded when funds received are in excess of expenditures incurred. Additionally, notices of federal and other research grant awards relating to future years have not been recorded.

During fiscal year 1997, AGH sold certain non-clinical assets, which are being leased back by AGH over a twenty year period. Such transaction resulted in a gain, which has been deferred and will be amortized into income over the lease term. The amount of the unamortized gain was $15,587 at June 30, 1997 and is classified as deferred revenue in the consolidated balance sheet.

Inventories:

Inventories are valued at the lower of average cost or fair value.